

Message

From: Patrick Holert [patrick.holert@celsius.network]
on behalf of Patrick Holert <patrick.holert@celsius.network> [patrick.holert@celsius.network]
Sent: 5/18/2020 7:42:47 PM
To: Harumi Urata-Thompson [harumi@celsius.network]
CC: Johannes Treutler [johannes.treutler@celsius.network]; Alex Mashinsky [alex@celsius.network]; Asaf Iram [asaf.iram@celsius.network]
Subject: Re: CEL OTC

So far, the programs for managing CEL tokens on the balance sheet that have been suggested are in real time with Celsius responding to opportunities to sell tokens on a case by case basis, and to buy tokens upon drops in the market. An alternative to this might be to make strategic purchases and sales on a monthly basis. We could regularly hold auctions for selling CEL tokens at the end of each month, and perhaps in the middle of each month offer to buy tokens at a discount to reduce market supply, provide liquidity and replenish the treasury. I still need to better understand how market prices for CEL tokens are established, and how we are accounting for them on the balance sheet.

To outline my thoughts on policies and procedures for managing the CEL assets, I drafted the following.

CEL Treasury Management: Policies and Procedures

Objective. CEL tokens are a key asset on the balance sheet of Celsius. They are used by the company to pay interest on deposits of various cryptocurrencies, thus keeping interest payments low, and to raise capital to finance the company's operations. The objective of the CEL treasury management program is to maximize the value of the company's CEL tokens for shareholders of the company, as well as outside holders of the tokens. In conducting CEL treasury activities, the company will always seek to balance its own interests with those of other CEL holders. The company's CEL treasury management activities consist of buying and selling CEL tokens using assets on its balance sheet.

Procedures for selling CEL tokens:

Aggregate purchase requests. Requests to purchase tokens will be aggregated until the end of each month. These requests will state: i.) the purchasing party, ii.) number of tokens requested, and iii.) an offering price for the tokens in USD.

CFO reports on financial performance. At the third Investment Committee meeting each month, the Chief Financial Officer will issue a report to the committee on the company's recent financial performance. In this report, the CFO will address any needs to raise capital to fund the company's ongoing operations, or special projects. As required to finance such needs, the CFO will recommend an amount of CEL tokens to sell at the end of the month.

Investment Committee approves tokens to auction. Based on the CFO's recommendation and current demand for CEL tokens, the Investment Committee will vote and agree on the number of tokens to be sold at the end of each month.

Conduct auction for CEL. On the last (Wednesday/Thursday/Friday) of each month, Celsius will hold an auction for CEL tokens.

Publicize auction. Celsius can publicize the auction widely, and it should be especially seen as an opportunity for institutional investors to purchase a block of CEL that might not normally be available to them.

Floor price at auction is book value. At every auction, the absolute floor price will always be the book value of CEL tokens on the balance sheet.

Setting market clearing price at auction. If everyone likes my concept for holding an auction for CEL, I will think through the best type of auction model and mechanics.

Procedures for selling CEL tokens:

If everyone likes my thoughts on selling CEL tokens, I will work on the purchasing side.

Benefits of program:

Structured framework for managing CEL assets

Improved transparency

Optimize selling prices for CEL tokens

Enhance liquidity of CEL tokens

Access capital for Celsius operating needs

Please let me know if you have any thoughts or want to discuss.

Best,

Patrick

On Sun, May 17, 2020 at 9:53 AM Harumi Urata-Thompson <harumi@celsius.network> wrote:

First of all, although this is using alpha's inquiry to illustrate how the OTC can be done going forward, the IC already approved up to 500k CEL sale to 4 different institutions including alpha, so it will be executed regardless. I just wanted to clarify that with this group to avoid any confusion.

Johannes, I assume this was done for illustrious purpose to explain one vision of how OTC could work including the backend work (including the strategy of how we could continue to slow down/replenish the Treasury) so we should disregard the numbers or the client name but how it could work. Thank you for this starter framework.

So at the high level, we have to make a decision of which direction we need to go as far as OTC CEL sale goes. I think this should have been reviewed as a group as a starter and maybe we could have avoided some of the unnecessary confusion:

- 1) We just sell CELs to whoever (that we approve) and we let Treasury go empty in the end
- 2) We do set up an OTC CEL desk but couple it with some kind of buyback program
- 3) We will not set up the CEL OTC desk and thus we just vote down this whole motion.

Based on what Celsius chooses (if I am missing some option, then please add it) we move forward with that decision. PROVIDED THAT IT IS #2, we can look further into Johannes' illustration of how this can happen.

So in a nutshell, what he is suggesting is going forward, whenever we execute an OTC transaction, we divide the proceeds into three buckets (exact amount can be reviewed) and each bucket will do a) immediate buy back before the market moves b) set it aside and buy back more when the market dips c) keep it as proceed/profit - for each sale.

So for this group and probably once we have an internal agreement/understanding by the IC, what we are asking the group to consider as framework to move forward with is:

- 1) We do CEL OTC that is coupled with some kind of buyback (or not - if you choose to go #1 or #3 decisions above)
 - if we definitely know that it is #1, then
- 2) What this buyback looks like. Let's review Johannes' suggestion and see if this looks like a good one to start with some further detailing. (like if we do multiple OTCs at various different price levels, what do we consider as price dip when we do the buyback #b? Does Johannes or the finance department have to keep track of relationships with each OTC sale and the market level and execute accordingly? For example)

Best regards,
Harumi

On Sat, May 16, 2020 at 5:38 AM Johannes Treutler <johannes.treutler@celsius.network> wrote:
Hi Alex,
Great AMA yesterday!

As an example for the increasing CEL OTC demand, please find below the wrap up of my call with **Alpha Sigma Capital** last night (Camilla & Leah connected me with them after IC)

- Their Research Team wants to partner with Celsians.com for a report
- They want to produce a report that shows CEL is a bargain / undervalued for their own investment committee & also to publish it and show how far ahead we are compared to competitors (we discussed BlockFi & NEXO yesterday .. the report is already halfway finished)
- They want to **invest \$1,000,000 - \$2,000,000 into CEL** with monthly OTC purchases of \$200,000+
- They can only buy OTC from us as they are US based

Let's use their planned monthly purchases as an example to visualize my proposed plan:

Alpha's Purchase #1

- **\$200,000 @ \$0.11 = 1.8 Million CEL** (= 1% of the CEL Treasury)
- we use \$80,000 to buy CEL @ \$0.11
- we use \$40,000 to buy CEL @ \$0.10- \$0.05 (in case it drops)
- we don't use \$80,000 -> we currently need Cash, here it is

Alpha's Purchase #2

- **\$200,000 @ \$0.15 = 1.3 Million CEL** (= 0.75% of the CEL Treasury)
- we use \$60,000 to buy CEL @ \$0.15
- we use \$60,000 to buy CEL @ \$0.14-\$0.07 (in case it drops)
- we don't use \$80,000 -> we currently need Cash, here it is

Alpha's Purchase #3

- **\$200,000 @ \$0.2 = 1 Million CEL** (= 0.57% of the CEL Treasury)
- we use \$40,000 to buy CEL @ \$0.20
- we use \$110,000 to buy CEL @ \$0.19-\$0.10 (in case it drops)
- we don't use \$50,000 -> we need less Cash at the moment, here it is

What I want to visualize is that the exact % of the OTC sale proceeds we use for which purpose should be a **function of:**

- **Celsius Cash Needs**
- **% Treasury Depletion**
- **The \$ price of CEL**

As we don't have enough data today to evaluate what model would work best I propose to give the CEL Treasury Desk a **clear framework** for the OTC Sale operations & the CEL Repurchases but as well some **freedom** to decide on their own at what point they repurchase how many CEL Tokens.

During the next months this will be tracked and reported properly to develop a more data driven plan.

Thank you for hearing my opinions,
Best regards,
Johannes

Alex Mashinsky <alex@celsius.network> schrieb am Sa. 16. Mai 2020 um 01:28:

nothing is static here, if we do multiple sales at a higher price then the average goes up and we can buy at higher prices. Our job is to protect CEL not replenish it.

If CEL keeps going up and we are doing well we don't need to sell at all from the treasury as the company makes more money and we need to buy much less since the price of CEL is much higher.

Its a win win scenario, the only way we loose if CEL price drops a lot and people get nervous and keep selling. We can protect against this scenario.

On Thu, May 14, 2020 at 10:22 PM Johannes Treutler <johannes.treutler@celsius.network> wrote:
Please excuse my late reply.

The framework you worked out is good so far but has in my opinion one weak point, that it only repurchases CEL if it drops below the price where we sold it OTC.

The more CEL we sell OTC, the more we deplete the CEL Treasury, the more we should buy back. I agree that we should especially buy back in falling CEL markets but also a bit during stable markets to protect the Treasury and not sell it off.

In my opinion it would make more sense to split it into **3 categories**.

Let's say we sell 10,000,000 CEL for \$0.15 within the next quarter:

This would be \$1,500,000 we raised with the CEL OTC sales, and I would split the money into the following 3 categories:

1.) Profit

- \$500,000
- money we book as profit and can deploy for whatever we need it

2.) CEL Support

- \$500,000

- have this money in active buy orders below the current CEL price and adjust them maximum once a week (if CEL price changes by x% .. easy to manage)
- for example \$100,000 @ -20% .. \$150,000 @ -35% .. \$250,000 @ -50% (-x% means down from current price)
- the more CEL drops the more we buy it back
- if the market doesn't drop we don't buy anything back

3.) Treasury Replenishment

- \$500,000
- add this to the weekly CEL purchases
- for example buying back \$50,000 for the next 10 week
- this third category refills the Treasury no matter how CEL develops
- and it supports the CEL price to stabilize CEL and make it even more attractive for even more OTC buyer

We could start the plan with equal weight of all 3 categories (33% each) and dependent on some figures weight the Profit part bigger or smaller
(dependent on how much \$ we need; how well CEL does overall; how we depleted the CEL treasury so far.)
This could be adjusted from investment committee every quarter

What do you think about it?

Best,
Johannes

On Thu, May 14, 2020 at 8:32 PM Patrick Holert <patrick.holert@celsius.network> wrote:
True, I think the framework that you outlined is good.

On Thu, May 14, 2020 at 2:30 PM Alex Mashinsky <alex@celsius.network> wrote:
we have net 0 exposure so if we add BTC we immediately offset that and buy less BTC to pay interest.
My point is that we don't care which of these are used as they are all the same to us...

On Thu, May 14, 2020 at 2:24 PM Patrick Holert <patrick.holert@celsius.network> wrote:
Overall, this is a good framework for the CEL issue and buy back program. What do you think about making the discount on selling CEL a function of whichever crypto or fiat is used in the purchase? Given that our lending rates are different with rates on BTC at 6% and USD at 10%, for instance, it does not make sense to give the same discount for payments using different assets. Ideally, we would make the discount a function of, and below our lending rates. So, we would sell CEL at up to a 3-4% discount for BTC and up to a 7-8% discount for USD. Does that make sense to you? Would it make sense to do something similar on the buy back side?

Best, Patrick

On Thu, May 14, 2020 at 2:07 PM Alex Mashinsky <alex@celsius.network> wrote:
Up to \$5m worth of CEL from treasury
no more than 10% discount for 1 year lockup
Buyer must be accredited US investor or institution. Non US Citizen or company.

no interest income during one year
Paid in fiat, Stablecoins, BTC or ETH
Permission to use the institution or individual name in PR.

Celsius to allocate up to 50% of total value sold for buybacks if the price of token drops at least 20% below the moving average of the total CEL sold.

Celsius will announce the treasury purchases the following week.

The lower the price the more/faster the buy back. CEL being down -20% is 5% of total funds -30% up to 20% of total funds -40% up to 50% of total funds.

Process:

Within the budget of \$5m Johannes + Harumi + Patrick is sufficient to proceed. Outside the total \$5m budget the investment committee needs to approve

Please add your comments.

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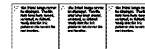
"The future is here, you just need to leave the past behind"



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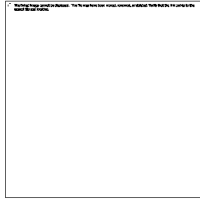
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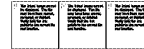
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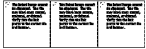
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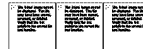
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